THE WEEKLY BOTTOM LINE

TD Economics

HIGHLIGHTS OF THE WEEK

May 26, 2017

United States

- Despite the upward revision to first-quarter GDP growth, with the second estimate indicating a 1.2% annualized gain on stronger consumption and investment, market reaction was relatively subdued given that the overall story is largely unchanged.
- Although investors are almost fully pricing in a June rate hike, the yield curve flattened this week as longer-term growth prospects became murkier and the Fed communicated that the balance sheet unwinding process would be protracted.
- Strength in consumption should leave the U.S. economy 3.3% larger this quarter, for an average growth of 2.2% during the first half of the year. While this is far from red-hot, it nonetheless is enough to reduce slack and should enable the Fed to continue along its gradual rate hike path.

Canada

- News and data were thin ahead of the BoC's monetary policy decision this week, but what little there was served to confirm our expectation of strong Canadian economic performance for 17Q1.
- Next week we expect Statistics Canada to report economic growth of about 4.0% (annualized) in the first quarter. This strong expansion is expected to be largely driven by consumer spending and business investment.
- With excess capacity quickly being absorbed, a rate hike by the BoC is likely to happen as early as 18Q2. Combined with firming energy prices, this should help provide a lift to the Canadian dollar. The bid on the Canadian dollar following Wednesday's monetary policy statement suggests maybe the time has come to buy Canada.

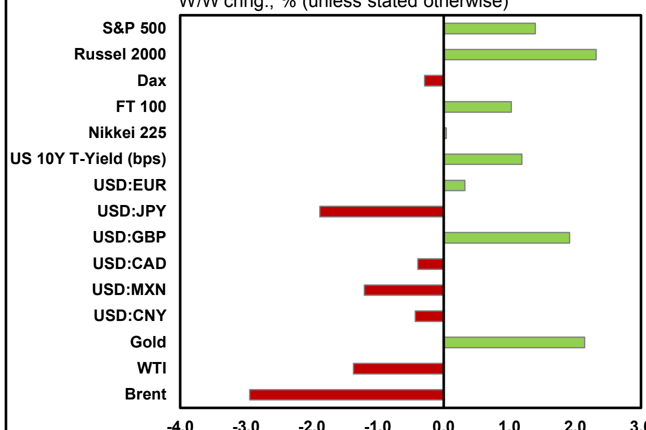
THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2,416	2,382	2,416	2,001
S&P/TSX Comp.	15,392	15,458	15,922	13,690
DAX	12,597	12,639	12,807	9,269
FTSE 100	7,551	7,471	7,551	5,924
Nikkei	19,687	19,591	19,962	14,952
Fixed Income Yields				
U.S. 10-yr Treasury	2.24	2.23	2.63	1.36
Canada 10-yr Bond	1.44	1.48	1.87	0.95
Germany 10-yr Bund	0.33	0.37	0.49	-0.19
UK 10-yr Gilt	1.01	1.09	1.52	0.52
Japan 10-yr Bond	0.04	0.04	0.12	-0.29
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.74	0.74	0.79	0.73
Euro (USD per EUR)	1.12	1.12	1.14	1.04
Pound (USD per GBP)	1.28	1.30	1.49	1.20
Yen (JPY per USD)	111.3	111.3	118.2	99.9
Commodity Spot Prices*				
Crude Oil ($US/bbl)	49.1	50.3	54.1	39.5
Natural Gas ($US/MMBtu)	3.06	3.09	3.76	1.75
Copper ($US/met. tonne)	5706.0	5665.3	6103.5	4495.8
Gold ($US/troy oz.)	1266.6	1255.9	1366.4	1128.4

*as of 11:50 am on Friday **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.

WEEKLY MOVES

W/W chng.; % (unless stated otherwise)



Note: Data as of May 26, 12:35 ET. Change from end of prior week.
Sources: Bloomberg, TD Economics

GLOBAL OFFICIAL POLICY RATE TARGETS

	Current Target
Federal Reserve (Fed Funds Rate)	0.75 - 1%
Bank of Canada (Overnight Rate)	0.50%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.25%
Bank of Japan (Overnight Rate)	-0.10%

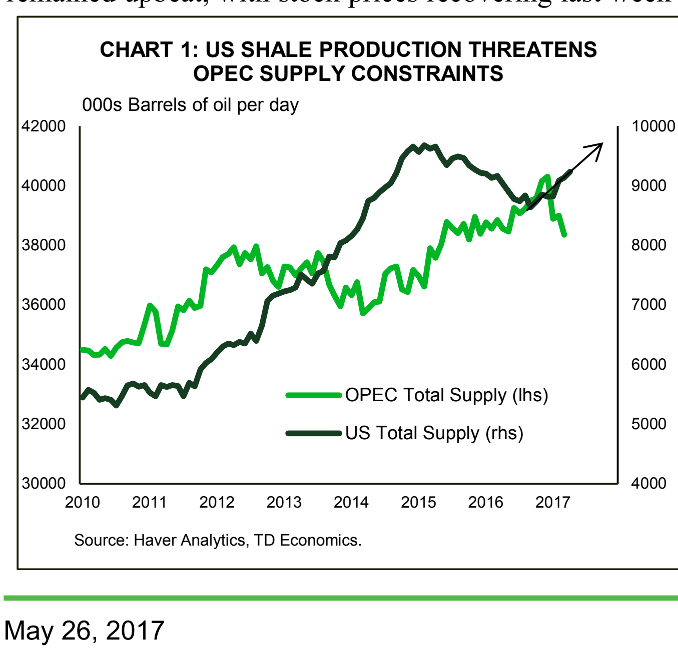
Source: Central Banks.

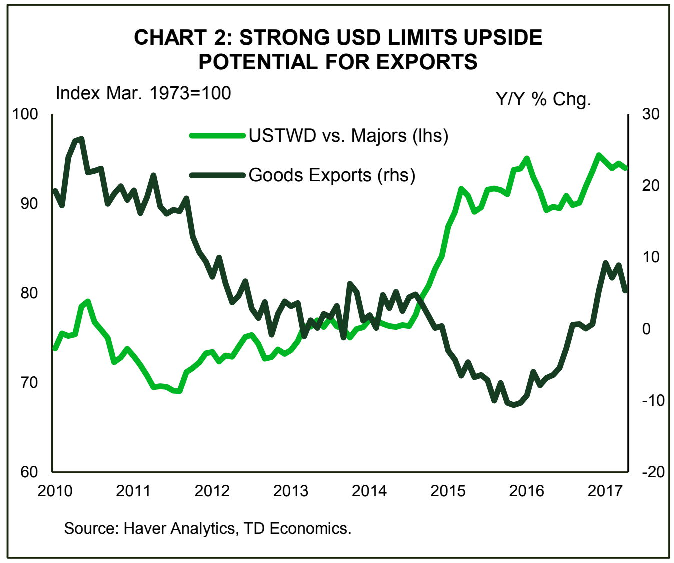
U.S. – FED MINUTES SIGNAL JUNE RATE HIKE

Despite the upward revision to first-quarter GDP growth, with the second estimate indicating a 1.2% annualized gain on stronger consumption and investment, market reaction was relatively subdued given that the overall story is largely unchanged. After another slow start to the year in 2017, economic growth appears to be rebounding this quarter, and should help to further diminish labor market slack.

That narrative was expressed in the minutes of the FOMC meeting released this week, which confirmed that participants are willing to see through the first-quarter weakness, and more robust data should be enough to justify a June rate hike. The minutes suggested some discomfort about softer inflation readings for March and April, with the Fed anticipating the upcoming inflation reports to confirm the one-off nature of the declines. Next week's payrolls should also help mitigate further concerns should the American economy continue to produce jobs at a healthy clip and wage growth pick-up.

Despite investors almost fully pricing in a June rate hike, the yield curve flattened this week as longer-term growth prospects became murkier and the Fed communicated that the balance sheet unwinding process would be protracted. Trump's proposed budget released this week featured projections of a drastically reduced debt-to-GDP ratio. But the feasibility of the plan is already being contested given its generous underlying growth assumptions. At the same time, the administration's efforts to push through health care and tax code reform are being met with significant opposition from Congress, leading bondholders to pare back their longer-term growth forecasts. So far, equity investors have remained upbeat, with stock prices recovering last week's losses, supported by stellar first quarter corporate earnings.





Oil tumbled this week as OPEC's extension of production cuts through to Q1 2018 fell short of market expectations. The decision comes amidst a surge in US shale production to its highest level since August 2015, keeping oil inventories elevated and having the potential to undermine OPEC's agenda. Having said that, we expect that oil will find its footing and will end the year higher as U.S. production growth decelerates and the market rebalances.

Economic data out this week was relatively modest. Sales of new and existing homes pared back in April, after a strong start to the year. Moreover, April's advanced international goods trade balance widened unexpectedly as the surge in imports outpaced the rise in export volumes. Ultimately, the strength of U.S. demand and a relatively elevated dollar will boost imports and hinder export growth, with offsetting impacts on U.S. manufacturers. Next week's ISM manufacturing index will likely telegraph continued growth for the sector, albeit at a slightly slower pace.

Next week's income and spending data will provide information on how consumers and inflation performed during the very important handoff month of April. We expect growth in consumption to accelerate from 0.6% in the first quarter to about 3.4% during Q2. Taken together with some inventory investment, the strength in consumption should leave the U.S. economy 3.3% larger this quarter, for an average growth of 2.2% during the first half of the year. While this is far from red-hot, it nonetheless is enough to reduce slack and should enable the Fed to continue along its gradual rate hike path.

Katherine Judge, Economic Analyst 416-307-9484

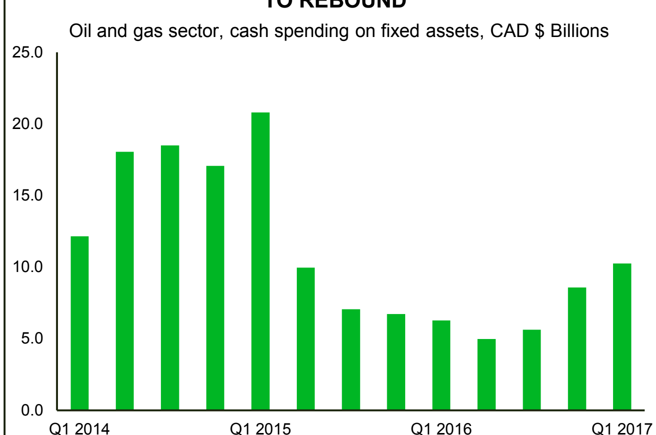
CANADA – BUY CANADA

A relatively quiet and short week, but what little new information there was proved to confirm the expectation for a strong performance by the Canadian economy at the start of this year. Indeed, strong economic momentum is boosting business confidence. The CFIB's Business Barometer index rose to 66 in May, its best reading in two and a half years and near levels seen prior the 2014 oil price collapse. The boost to small business optimism was fairly broad, although the natural resource sector recorded its third consecutive monthly decline, likely a reflection of sectoral challenges including low prices and softwood lumber tariffs. An early indicator, it is supportive of our view that economic activity is on track to expand at an above 2.0% pace in 17Q2.

Unfortunately, corporate profits have yet to fully mirror the strong performance of the Canadian economy, but should eventually. Although corporate profits of Canadian firms declined 7.4% in 17Q1 relative to the end of 2016, underlying developments were more positive. Excluding a one-off actuarial adjustment in the insurance and related industries from the calculation revealed corporate profits grew 0.5%.

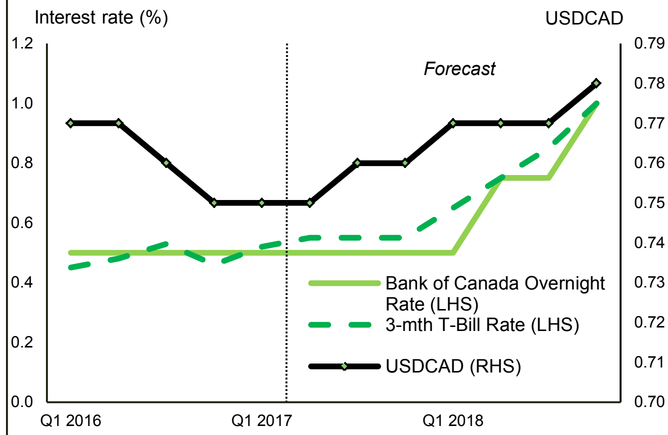
While struggling to regain profitability, the Canadian oil sector continues to show signs of life. Since 2014 the sector has responded to the collapse in oil prices by cutting jobs and investment. As a result, it has been a drag on both provincial and national economic activity. However, the rebound in oil prices appears to have renewed investment interest in Canada's oil sector. Drilling rig counts are climbing, and cash spending on fixed spending in the sector is resurgent – both signs of a sector in recovery mode.

CHART 1: OIL SECTOR INVESTMENT CONTINUES TO REBOUND



Source: Statistics Canada (Table 187-0002)

CHART 2: BOC RATE HIKES SHOULD HELP LIFT THE VALUE OF THE CANADIAN DOLLAR



Source: TD Economics, forecast as at May 26, 2017.

A recovering oil sector is just one factor driving the above trend economic performance. Next week we expect Statistics Canada to report economic growth of about 4.0% (annualized) in the first quarter. This strong expansion is expected to be largely due to consumer spending and business investment. Household consumption growth appears to reflect labour market improvements, although real wage growth continues to disappoint. Business investment is expected to be driven by an oil sector led expansion in structures.

The above trend pace of economic activity may still have room to run. Excess capacity is apparent in the Canadian economy, as highlighted by the Bank of Canada's (BoC's) Monetary Policy decision this week. As universally expected, the BoC kept its policy rate at 0.5%, noting that all three measures of core inflation remain below target and wage growth remains subdued – all signs of economic slack. Notably absent were comments about the financial troubles of Home Capital Group, suggesting some comfort by policymakers that the scope for contagion is limited.

Canada's strong economic performance thus far has been seemingly ignored by financial markets, as concerns about Canada's housing market and trade clouded the outlook. With excess capacity quickly being absorbed, a rate hike by the BoC is likely to happen as early as 18Q2. Combined with firming energy prices, this should help provide a lift to the Canadian dollar. The bid on the Canadian dollar following Wednesday's monetary policy statement suggests maybe the time has come to buy Canada.

Fotios Raptis, Senior Economist, 416-982-2556

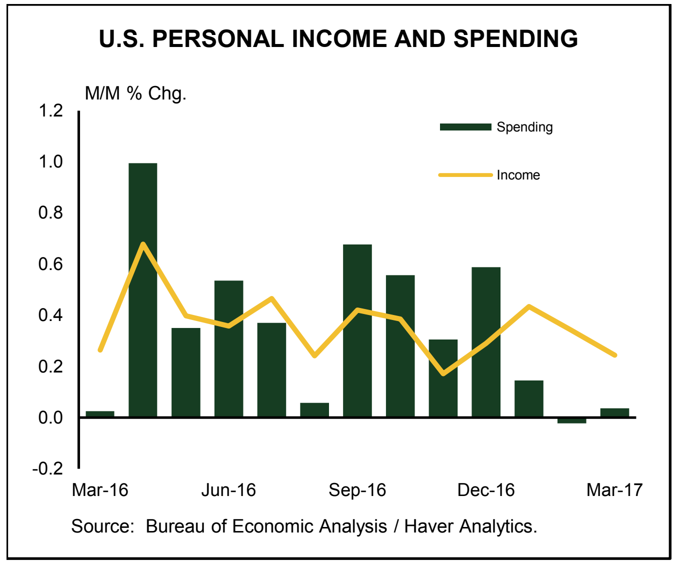
U.S.: UPCOMING KEY ECONOMIC RELEASES

U.S. Personal Income & Spending - April*

Release Date: May 30, 2017
Previous Result: Income 0.2% m/m, Spending 0.0% m/m
TD Forecast: Income 0.4% m/m, Spending 0.4% m/m
Consensus: Income 0.4% m/m, Spending 0.4% m/m

Headline PCE inflation is expected to slow to 1.6% in April vs 1.8% in March, reflecting a 0.1% increase in prices on the month. In line with the CPI report, higher energy likely decelerated further on a year-over-year basis despite solid gains on the month while food prices should be little changed in deflation territory. All eyes are on the core PCE (excluding food & energy) index, which we expect to post a modest 0.1% increase on the month, in line with the CPI print. That would lead to another slip in the core inflation rate to 1.4% y/y vs 1.6% y/y. We continue to look through the recent weakness in core inflation as driven by several one-offs (wireless cellphone services, apparel) as fundamental factors (economic activity, labor market conditions, exchange rate pass-through) continue to point to gradual firming.

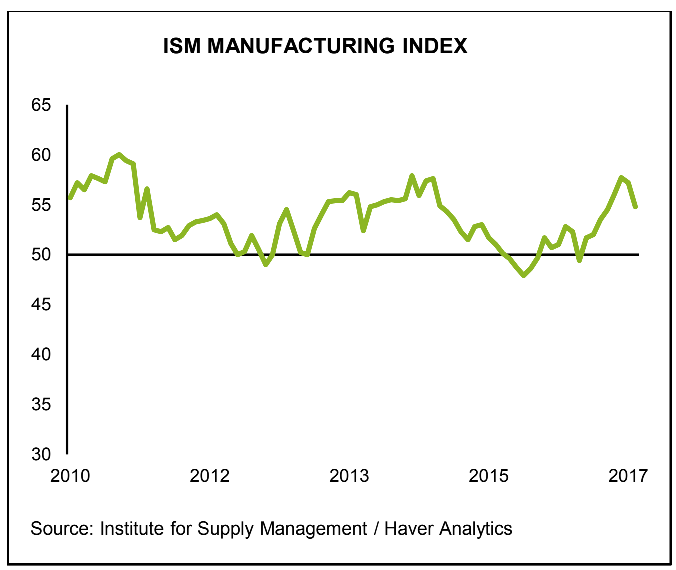
Nominal PCE (personal spending) is expected to post a solid 0.4% rise in April, reflecting a bounce back in spending on durables and moderate gains across nondurables and services expenditures. That would mark a solid start to Q2 and consistent with real PCE tracking near a robust 3% pace. We also expect a solid showing for April personal income (0.4%), which slowed in the previous month.



U.S. ISM Manufacturing Index - May*

Release Date: June 1, 2017
Previous Result: 54.8
TD Forecast: 55.6
Consensus: 54.6

We expect a healthy rebound in the April ISM manufacturing PMI to 55.6 in May, supported by a healthy showing across regional surveys that month. In the components, we look for new orders and employment to drive the rise in the headline index as both posted abrupt dips in the prior month. The May reading would remain supportive of above-trend GDP growth in the second quarter, with estimates tracking in the 3-4% range.

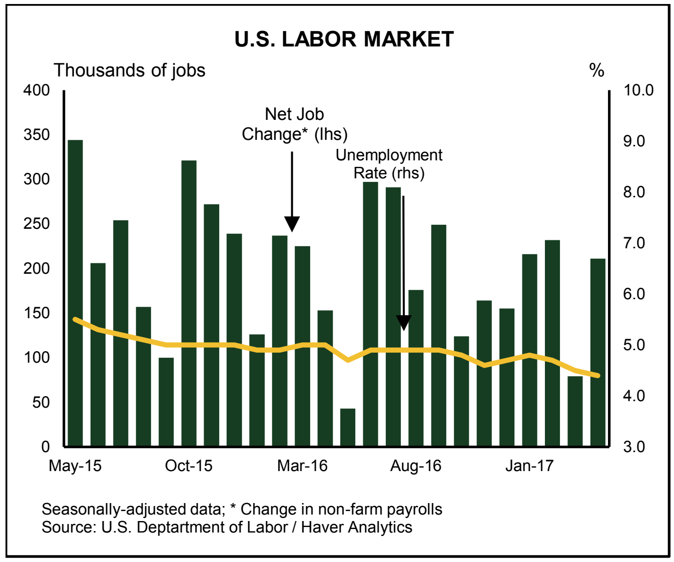


U.S. Employment - May*

Release Date: June 2, 2017
Previous Result: 211k, unemployment 4.4%
TD Forecast: 170k, unemployment 4.4%
Consensus: 180k, unemployment 4.4%

We expect May nonfarm payroll employment to slow to a respectable 170k pace in May after registering a strong 211k gain in April. That puts payrolls gains well above their break-even rate and just below the 3-month average pace of 174k. Record low jobless claims past survey indicators on balance and unwinding negative weather effects remain supportive of healthy job growth. That said, ISM nonmanufacturing employment index in particular averaged a subpar 51.5 over the prior two months, consistent with job growth closer to 100k. The pullback in the indicator may prove temporary as certain transitory factors could be at play (notably weather) and thus we await additional labor market measures for the month of May before finalizing our forecast.

The unemployment rate is expected to be unchanged at 4.4%, though we see risk for a further decline to 4.3% in line with the steady above-trend pace of job gains. We look for a 0.2% m/m increase in average hourly earnings in April, factoring in some downward bias from calendar effects. That would leave the year-on-year pace slightly higher at 2.6%.

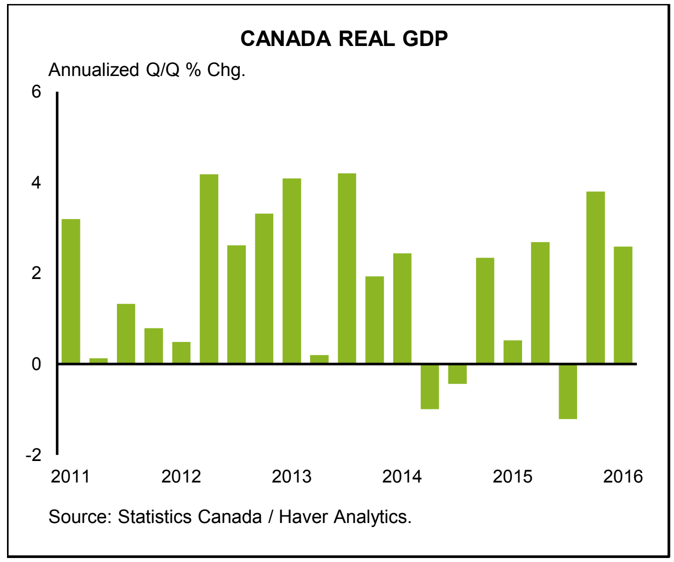


*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

CANADA: UPCOMING KEY ECONOMIC RELEASES

Canadian Real GDP - (Q1 and March*)

Release Date: May 31, 2017
Previous Result: 2.6% q/q
TD Forecast: 4.0% q/q
Consensus: N/A



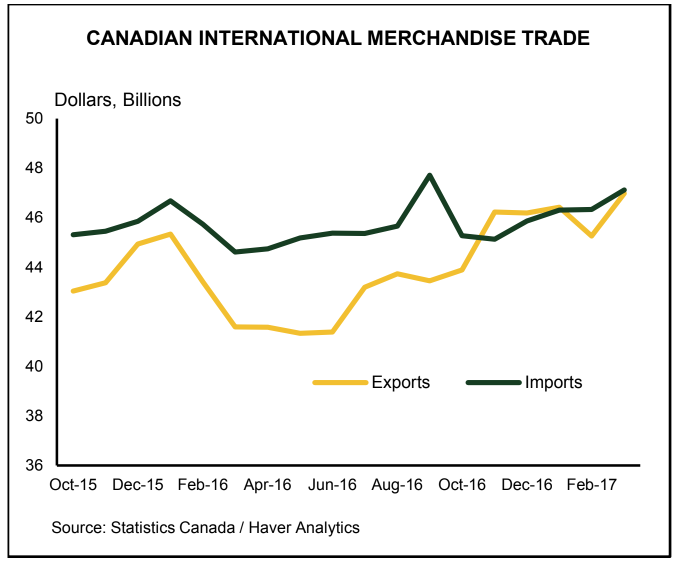
The Canadian economy is forecast to have expanded by 4.0% (q/q, annualized) in the first quarter of 2017. Much of the expansion can be put down to consumer spending (+4.6%), with particular strength expected in durables spending (+12.5%) given strong auto sales during the quarter. Healthy growth in investment is also likely. Higher frequency indicators of business investment suggest a rebound of non-residential structures investment (+12.3%), with an even healthier pace of expansion forecast for residential investment (+14.2%). Finally, a sizeable gain in business investment following the previous quarter's destocking is likely, and anticipated to add approximately 2 percentage points to growth. On the negative side of the ledger, a significant rebound of imports (+10.6%) is anticipated following the previous quarter's decline (itself a reflection of a one-off impact associated with the delivery of key module for the Hebron offshore oil project).

Looking to the month of March, we expect industry-level GDP to post a 0.1% advance. Growth will be heavily skewed towards the services sector, with a strong contribution from both retail and wholesale activity while another sizeable increase in existing home sales will support the real estate industry. A slowdown in durable goods manufacturing will weigh on growth in the goods-producing sector and a fire that curtailed production at one of the Oil Sands largest upgrading facilities introduces the risk of a sharp pullback in energy, though this will be a transitory impact. The soft print for March GDP should provide a relatively weak handoff to Q2, where we expect growth to moderate to a mid-2% pace. However, this remains well above potential and is consistent with a further drawdown in the level of economic slack.

Canadian International Trade - April*

Release Date: June 2, 2017
March Result: -$0.14bn
TD Forecast: -$0.50bn
Consensus: NA

The international goods trade deficit is expected to widen to $500m in April from $134m the prior month, as a modest gain in exports will be overshadowed by a larger increase in imports. Energy exports should post a small advance on a nominal basis but there is scope for volumes to decline due to a fire at a Syncrude facility in the oil sands, which reduced shipments until May. Non-energy exports should post a mild gain due primarily to a weaker Canadian dollar and higher factory prices, though there is a risk of a pullback after last month's outsized gain. The implementation of new tariffs on softwood lumber should not have a material impact due to the timing of the announcement, which will push most of the impact into May. Imports should post a more moderate advance due primarily to exchange rate effects and continued strength in Canadian household spending.



*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

RECENT KEY ECONOMIC INDICATORS: May 22-26, 2017

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States							
May 23		New Home Sales	Apr	Thsd	569.0	642.0	R▲
May 24		House Price Purchase Index	1Q	Q/Q % Chg.	1.4	1.5	
May 24		Markit US Services PMI	May P	Index	54.0	53.1	
May 24		Markit US Manufacturing PMI	May P	Index	52.5	52.8	
May 24		Existing Home Sales	Apr	Mlns	5.57	5.71	
May 25		Advance Goods Trade Balance	Apr	Blns	-67.6	-65.1	R▲
May 25		Retail Inventories	Apr	M/M % Chg.	0.3	0.3	R▼
May 25		Initial Jobless Claims	May 20	Thsd	234.0	233.0	R▲
May 26		Gross Domestic Product Annualized	1Q S	Q/Q % Chg.	1.2	0.7	
May 26		Personal Consumption	1Q S	Q/Q % Chg.	0.6	0.3	
May 26		Durable Goods Orders	Apr P	M/M % Chg.	-0.7	2.3	R▲
May 26		Core PCE	1Q S	Q/Q % Chg.	2.1	2.0	
May 26		Durables Ex Transportation	Apr P	M/M % Chg.	-0.4	0.0	
May 26		Cap Goods Orders Nondef Ex Air	Apr P	M/M % Chg.	0.0	0.5	
Canada							
May 23		Wholesale Trade Sales	Mar	M/M % Chg.	0.9	0.3	R▲
May 24		Bank of Canada Rate Decision	May 24	%	0.5	0.5	
May 25		CFIB Business Barometer	May	Index	66.0	64.4	
International							
May 23	JN	Nikkei Japan PMI Mfg	May P	Index	52.0	52.7	
May 24	EZ	Markit Eurozone Manufacturing PMI	May P	Index	57.0	56.7	
May 25	UK	Gross Domestic Product	1Q P	Y/Y % Chg.	2.0	2.1	
May 25	UK	Gross Domestic Product	1Q P	Q/Q % Chg.	0.2	0.3	
May 25	JN	Natl Consumer Price Index Ex Fresh Food, Energy	Apr	Y/Y % Chg.	0.0	-0.1	
May 25	JN	Natl Consumer Price Index Ex Fresh Food	Apr	Y/Y % Chg.	0.3	0.2	
May 25	JN	Natl Consumer Price Index	Apr	Y/Y % Chg.	0.4	0.2	
May 25	JN	Producer Price Index Services	Apr	Y/Y % Chg.	0.7	0.8	

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: MAY 29 - JUNE 2, 2017

Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
			United States				
May 30	8:30		Personal Consumption Expenditure Core	Apr	Y/Y % Chg.	1.5	1.6
May 30	8:30		Personal Consumption Expenditure Deflator	Apr	Y/Y % Chg.	1.7	-2.0
May 30	8:30		Real Personal Spending	Apr	M/M % Chg.	-	0.3
May 30	8:30		Personal Income	Apr	M/M % Chg.	0.4	0.2
May 30	9:00		S&P CoreLogic US Home Price Index NSA	Mar	Y/Y % Chg.	-	5.8
May 30	10:00		Conf. Board Consumer Confidence	May	Index	120.0	120.3
May 31	8:00		*Fed's Kaplan Speaks in New York*				
May 31	10:00		Pending Home Sales	Apr	M/M % Chg.	1.0	-0.8
May 31	14:00		*U.S. Federal Reserve Releases Beige Book*				
May 31	19:30		*Fed's Williams Speaks in Seoul*				
Jun 01	8:30		Initial Jobless Claims	May 27	Thsd	-	234.0
Jun 01	10:00		ISM Manufacturing	May	Index	55.0	54.8
Jun 01			Wards Total Vehicle Sales	May	Mlns	17.00	16.81
Jun 02	8:30		Change in Nonfarm Payrolls	May	Thsd	180.0	211.0
Jun 02	8:30		Trade Balance	Apr	USD, Blns	-44.0	-43.7
Jun 02	8:30		Unemployment Rate	May	%	4.4	4.4
Jun 02	8:30		Average Hourly Earnings	May	M/M % Chg.	0.3	0.3
			Canada				
May 30	8:30		Current Account Balance	Q1	CAD, Blns	-	-10.7
May 30	8:30		Industrial Product Price	Apr	M/M % Chg.	-	0.8
May 31	8:30		Gross Domestic Product	Mar	M/M % Chg.	-	0.0
May 31	8:30		Quarterly Gross Domestic Product Annualized	Q1	Y/Y % Chg.	-	2.6
Jun 01	9:30		Markit Canada Manufacturing PMI	May	Index	-	55.9
Jun 02	8:30		Int'l Merchandise Trade	Apr	M/M % Chg.	-	-0.1
Jun 02	8:30		Labor Productivity	Q1	Q/Q % Chg.	-	0.4
			International				
May 29	19:30	JN	Jobless Rate	Apr	%	-	2.8
May 29	19:50	JN	Retail Trade	Apr	Y/Y % Chg.	-	2.1
May 30	21:00	CH	Manufacturing PMI	May	Index	51.0	51.2
May 31	5:00	EZ	Consumer Price Index Core	May A	Y/Y % Chg.	-	1.2
May 31	5:00	EZ	Unemployment Rate	Apr	%	-	0.1
May 31	8:00	IN	Gross Domestic Product	1Q	Y/Y % Chg.	-	7.0
Jun 01	4:30	UK	Markit UK PMI Manufacturing SA	May	Index	-	57.3
Jun 01	8:00	BZ	Gross Domestic Product	1Q	Y/Y % Chg.	-	-2.5

* Eastern Standard Time. Source: Bloomberg, TD Economics.